Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: April 24, 2017

Re: **Decision on proposed transmission access charge area**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management requests that the Board approve a new transmission access charge (TAC) area for The Metropolitan Water District of Southern California (MWD) because its Service and Interchange Agreement with Southern California Edison Company (SCE) will terminate effective October 1, 2017. MWD's agreement with SCE covered MWD's reliability must-run and local resource adequacy requirements, to the extent it had any obligation, among other services. Upon termination of the agreement, MWD will be responsible for procuring its own local resource adequacy capacity if it stays in the ISO balancing authority area. Creating a new MWD TAC area is necessary to allocate resource adequacy requirements to MWD consistent with the cost causation principles employed for allocating local resource adequacy requirements.[1]

> ***Moved, that the ISO Board of Governors authorizes Management to create a separate transmission access charge area for The Metropolitan Water District of Southern California for the purpose of separately allocating resource adequacy requirements, as described in the memorandum dated April 24, 2017.***

DISCUSSION AND ANALYSIS

The circumstances here are unique. MWD built its own transmission system from its generation resources to serve its Colorado River Aqueduct (CRA) pump load and does not rely on the SCE transmission system. MWD also has a Service and Interchange

[1] Resource adequacy requirements are allocated based on the TAC area billing determinant because of the symbiotic relationship between the building of transmission and generation in California. Allocating local resource adequacy requirements to all load serving entities in a specific TAC area seemed reasonable in most cases and paralleled the previous cost allocation of reliability must-run contract costs that were allocated by the Participating TOs to wholesale and retail loads that used their transmission.

Agreement with SCE whereby SCE aggregates MWD's and SCE's resources to serve both SCE and MWD load. Under the Service and Interchange Agreement, SCE covers MWD's resource adequacy obligations. MWD allowed SCE to use MWD's hydroelectric resources on peak provided MWD's flat 24/7 pump load was served, which SCE usually served with its base-load generation. In addition, SCE has a first right of refusal to use MWD's excess transmission system capacity. SCE turned over this transmission entitlement right to the ISO's operational control, and the capacity has been available to the ISO market since start-up.[2] However, effective October 1, 2017, the Service and Interchange Agreement will terminate, meaning SCE will no longer cover MWD's local resource adequacy obligations and MWD will be responsible for its share of local resource adequacy obligations if it remains in the ISO balancing authority area.

The ISO has been working with MWD to assess its options following termination of the agreement. Although MWD has been in the ISO balancing authority area since inception, it can either stay with the ISO or join the Western Area Power Administration – Lower Colorado Region (WALC) balancing authority area because its system is interconnected to WALC, and WALC controls MWD's generation resources. Potentially being allocated a local resource adequacy requirement is an important issue that has prompted MWD to evaluate leaving the ISO balancing authority area and joining the WALC balancing authority area. Because MWD is uniquely situated and has capabilities that others utilities do not, namely having sufficient transmission from their generation to meet their entire CRA pump load without relying on the ISO-controlled grid, the ISO believes it is appropriate to create a separate TAC area to allow MWD to continue meeting its own resource adequacy needs. Moreover, by keeping MWD in the ISO balancing authority area, MWD has agreed that the ISO may retain the first right of refusal to excess transmission capacity on their transmission system for use by the ISO market.

Creating a new TAC area will allow local resource adequacy requirements to be appropriately allocated to MWD consistent with fundamental cost causation principles employed in the policy for allocating the local resource adequacy requirement. The ISO tariff allows the Board to establish a separate TAC area if there is a potential for significant cost shifting. Those circumstances exist here. MWD has determined that incurring the local resource adequacy requirement allocation would expose MWD to additional costs that it had previously not incurred and that it should not incur. Because MWD does not lean on the ISO-controlled grid to serve its CRA load, it is reasonable that MWD should not incur a *pro rata* share of the local resource adequacy requirements for the East Central TAC Area. In addition, the ISO will benefit if MWD stays in the ISO balancing authority area by having additional transfer capability for market transactions from Mead and Parker into Southern California.

[2] Due to the Service and Interchange Agreement with SCE, MWD has never paid for RMR costs or been allocated LRA requirements.

The ISO is negotiating an Operating Agreement with MWD to facilitate the coordination and operation between the ISO and MWD effective October 1, 2017.

POSITIONS OF THE PARTIES

The ISO developed a proposal to resolve the local resource adequacy issue by creating a TAC area for MWD, even though MWD will not be a Participating TO.[3] A stakeholder call was held on March 28, and comments were due on April 11, 2017. The ISO only received one comment -- from Pacific Gas and Electric Company. PG&E does not oppose creating a separate TAC area for MWD, but it seeks clarification of the tariff section regarding creation of a new TAC area and questions whether the tariff should be revised in the future. The ISO is creating a new TAC area because MWD will not be a Participating TO, and creating a new TAC area is necessary to appropriately assign local resource adequacy responsibility based on cost causation principles. The ISO tariff allows the Board to create a new TAC area if integrating an entity has the potential to shift significant costs. Further, the ISO is willing to evaluate the current structure of these provisions if and when there are related tariff changes sufficient to warrant such consideration.

CONCLUSION

Management respectfully requests that the Board approve creating a TAC area for MWD so the ISO can appropriately allocate local resource adequacy requirements to MWD.

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[3] Appendix F, Schedule 3, Section 3.4 states that if MWD becomes a Participating TO then it would be in the East Central TAC Area. However, since MWD is not becoming a Participating TO, this section of the ISO tariff is not applicable.